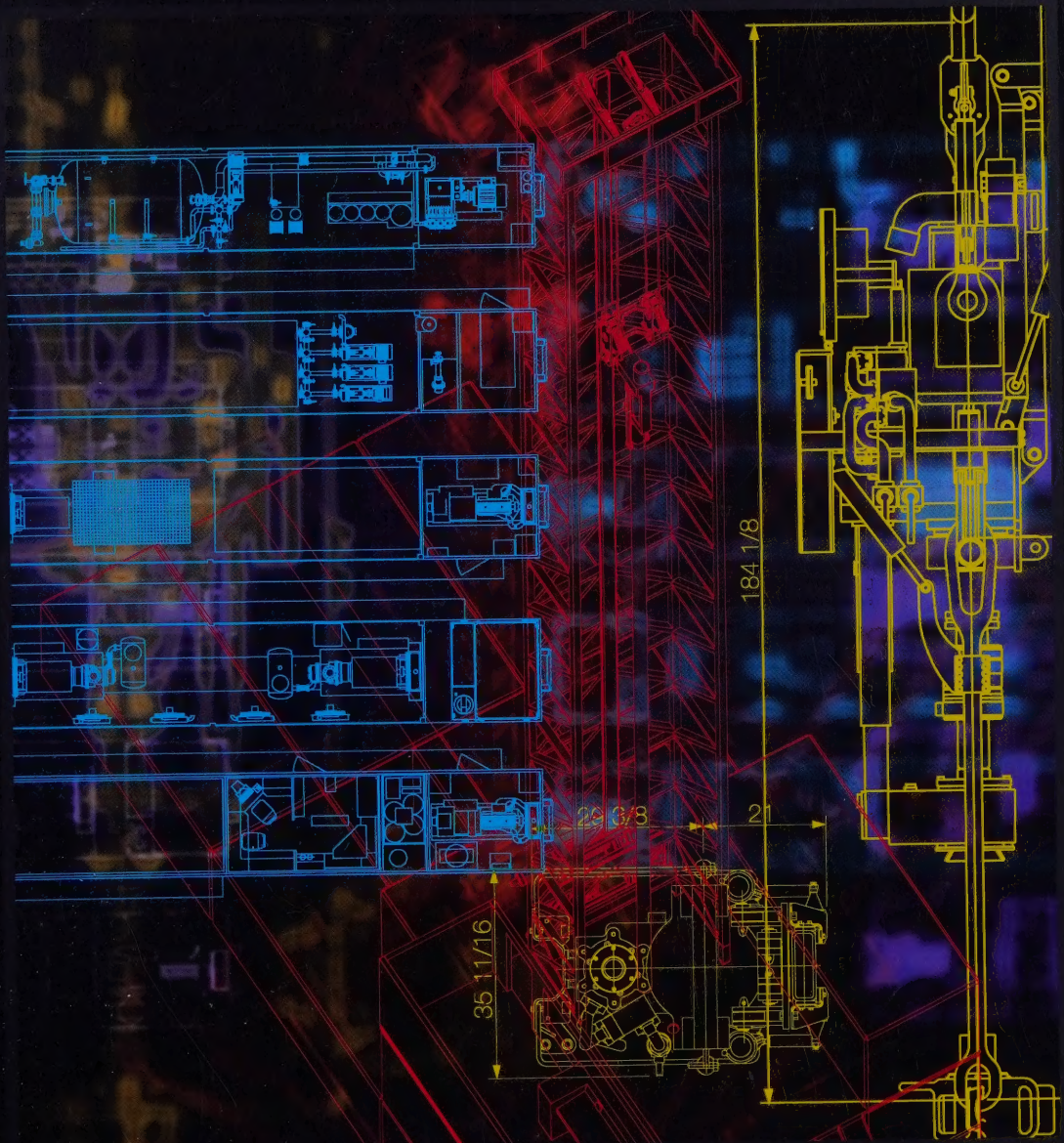


TESCO CORPORATION

1998 ANNUAL REPORT

P R E P A R I N G F O R F U T U R E G R O W T H





Innovative Technology with an International Focus

Tesco Corporation is an international oilfield service company operating in over twenty five countries. Tesco designs, manufactures and services highly efficient oilfield equipment that reduces the cost of drilling and producing oil and gas. Tesco is committed to an on-going, in-house research and development program that leads to the practical application of new technology.

ABOUT THE COVER

The cover reflects the depth of the engineering, technical and operating capabilities within Tesco Corporation. Tesco relies on its Research and Development focus to develop the products and services necessary to improve the efficiency and effectiveness of the world's drilling industry. Tesco is a multi-faceted technology and service company that designs, manufactures, sells and operates top drive and underbalanced drilling systems; completion products; control, electrical and hydraulic systems and is committed to improving the oil and gas drilling process through its casing drilling project.

ANNUAL MEETING

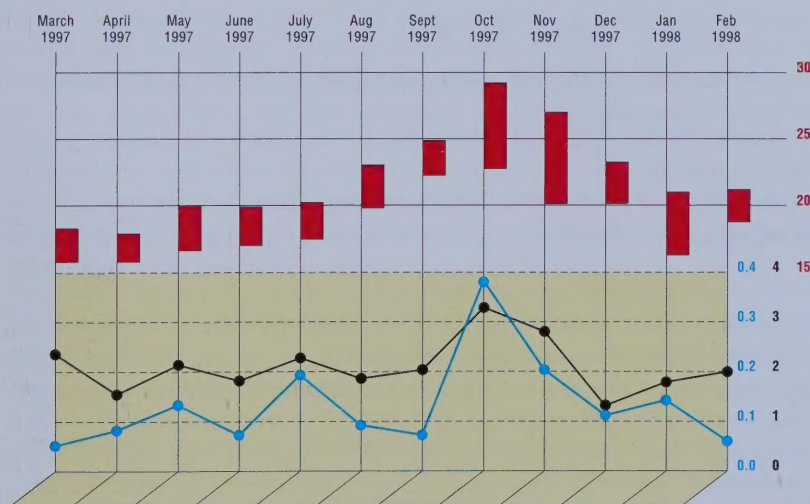
The Annual General Meeting of the Shareholders will be held on Tuesday, June 16, 1998 at 3:00 pm in the Fairmount Room of The Blackfoot Inn, 5940 - Blackfoot Trail SE, Calgary, Alberta.

1	Financial Highlights	12	Management's Discussion and Analysis (MD&A)	20	Consolidated Financial Statements
2	President's Message to the Shareholders	17	Outlook	23	Notes to Consolidated Financial Statements
5	Review of Operations	19	Management's Report/ Auditors' Report	33	Corporate Information

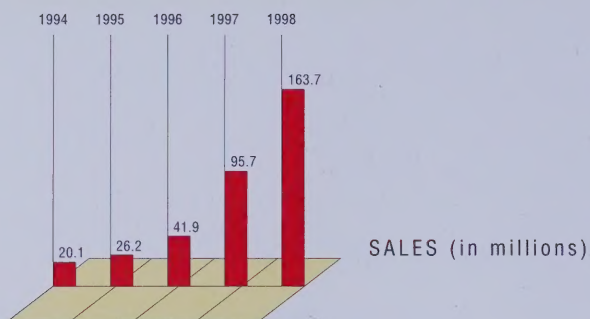
Financial Highlights

	1998	1997	1996	1995	1994
For the year ended February 28					
(Millions of Canadian Dollars, except where noted)					
Earnings Information					
Sales	163.7	95.7	41.9	26.2	20.1
EBITDA	50.3	33.2	16.0	7.8	3.1
Net Earnings	25.2	16.3	8.7	5.1	(0.2)
EPS (basic – \$ per share)	0.87	0.64	0.43	0.30	(0.01)
EPS (fully diluted – \$ per share)	0.82	0.59	0.37	0.28	(0.01)
Statistical Information					
Rental Service Days	19,547	12,307	7,055	2,371	499
Top Drive Systems Sold	27	14	6	8	2
Balance Sheet Information					
Capital Additions	35.7	28.6	19.3	12.1	4.3
Working Capital	84.5	28.4	11.1	6.3	9.9
Total Assets	220.5	109.4	58.1	31.0	22.0
Shareholders' Equity	178.8	87.0	43.6	22.5	17.3
Share Information					
Common Shares Outstanding	31.4	27.3	22.6	16.9	16.9
Fully Diluted Shares Outstanding	34.2	31.1	27.2	19.0	18.0

Common Share Performance



- SHARE PRICE – high and low (\$Cdn/per share)
- TSE (millions of shares)
- NASDAQ (millions of shares)



To Our Shareholders

PREPARING FOR FUTURE GROWTH

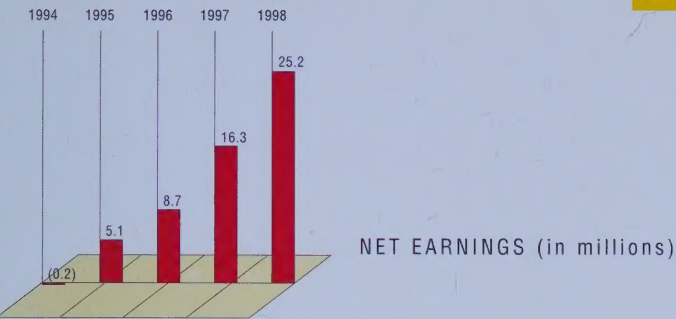
Tesco Corporation grew aggressively during the year ended February 28, 1998. In addition to record financial performance, the Corporation continued to penetrate the drilling market with its proprietary portable top drives; grew the market for its two important new top drive products, the EC (electric) and HM (hydraulic mini); commercialized its integrated underbalanced drilling system; and advanced its casing drilling research and development (R&D) project.

Sales in fiscal 1998 rose 71% to \$163.7 million, net earnings rose 55% to \$25.2 million and fully-diluted earnings per share rose 39% to \$0.82. This growth was largely due to the continued success of portable top drives, as well as improved results in our completion products, hydraulic and electrical divisions. During the year, Tesco completed the largest equity financing in its history, raising \$50.6 million in an offering of 2.2 million common shares at \$23 per share.

Best known for its state-of-the-art portable top drive systems, Tesco Corporation is a technology-oriented oilfield service company. Our corporate mission is to reduce the cost of drilling oil, gas and geothermal wells by developing innovative products and services that solve fundamental problems faced by operators. A strong service orientation and close ties to our customers' needs, help us to identify areas in which to focus our efforts, resources, and aggressive R&D program.

Tesco continues to penetrate both its core and newer markets around the world as a result of three factors:

- First, the Corporation produces high quality, state-of-the-art products that satisfy an important market need. Tesco's top drive products not only employ new technology, but the rental concept introduced by Tesco makes top drives available for all drilling operations. Today, the Corporation is the world's dominant producer and rental provider of top drives for land rigs, with a product line that can fit any rig in the world.
- Second, Tesco is service oriented. Tesco's commitment to reducing the cost of drilling and solving technical problems encountered by operators is demonstrated by delivering equipment that works efficiently and reliably. With every top drive rental, Tesco provides an experienced drilling supervisor on a 24 hour per day basis and a complete set of spare parts. We have built a solid reputation for reliability and dependability.
- Third, Tesco has built an effective worldwide marketing organization. The Corporation has expanded its sales organization to include marketing representatives and agents in every oil and gas producing region. Tesco's Latin American sales group, all Spanish speaking, has generated business opportunities that have made this market one of Tesco's largest. To develop further inroads into global oil and gas markets and to integrate the marketing of all Tesco products and services, Tesco's former senior vice-



president and general manager of U.S. operations has relocated to Europe to manage and further strengthen Tesco's worldwide marketing network. This effort is expected to open many new markets and identify untapped opportunities around the world.

We anticipate continued growth in both sales and rentals of top drives as the Corporation enters new markets and further penetrates existing markets. In maturing rental market areas such as North America, we expect to see a growing trend towards purchasing, as opposed to renting, of top drive systems. Top drives have proven their effectiveness and oil companies are now expecting contractors to provide top drives with their rigs. In the developing markets, we anticipate further growth in the rental top drive market.

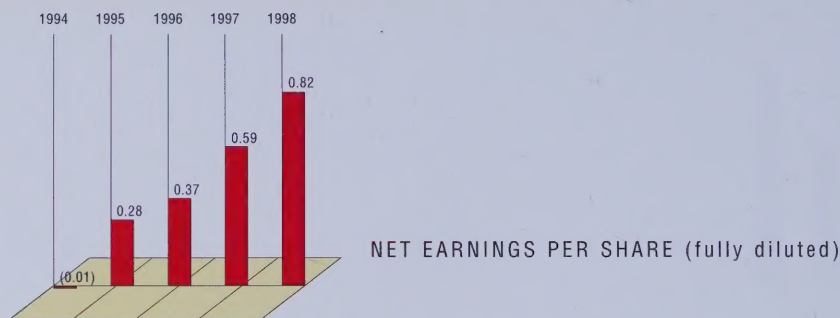
Tesco's other divisions have also performed well in fiscal 1998. Gris Gun, which provides completion products, had an outstanding year, reporting a 55% increase in sales and record operating earnings. The division began an international expansion that should position it for continued growth in the years ahead. Gris Gun is the technology leader in tubing conveyed perforating tools and is playing a key role in developing innovative and critically important tools for Tesco's casing drilling project.

Kelon Electric and Ener-Rig Supply, which specialize in electrical systems, had record sales in fiscal 1998. Mainline Industries, which specializes in hydraulic components, also continued to increase sales during the year. These divisions provide Tesco with vertical integration and play an important role in Tesco's top drive business. In addition, they have been instrumental in the development of the underbalanced drilling and casing drilling projects. Both divisions recorded increased third party sales, increased staffing and expanded facilities.

Tesco is preparing for future growth by developing new technologies and services that have substantial market potential. The Corporation has two major projects underway, underbalanced drilling and casing drilling. Both projects have made substantial progress during fiscal 1998.

Underbalanced drilling is a new technology that increases drilling efficiency and minimizes formation damage, resulting in reduced completion costs, higher initial production and improved reserves recovery. After extensive R&D, Tesco designed an integrated underbalanced drilling system that eliminates many logistical problems currently faced by operators and incorporates advanced technology to improve efficiency, reliability and safety. Tesco's system utilizes a state-of-the-art computerized control system that provides seamless operation of all components and collects real-time data on performance of the underbalanced drilling program. The Corporation believes that this business has significant commercial potential.

During fiscal 1998, Tesco made substantial progress in its casing drilling R&D project. Much of this progress is directly attributable to the contributions made by the Corporation's Gris Gun, Mainline and



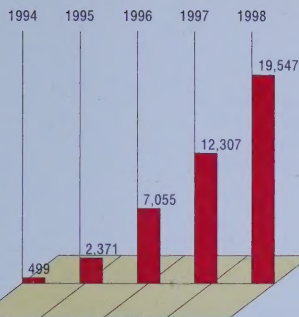
Kelon/Ener-Rig divisions. Casing drilling is a revolutionary new method for drilling wells that will use casing instead of drill pipe. Drill bits and other downhole tools will be wireline-transported inside the casing. This system will eliminate the use of drill pipe, reducing the time spent tripping pipe to replace downhole tools. It should also minimize unscheduled events associated with wellbore instability. Casing drilling could shorten well drilling time by 30% or more and substantially reduce downhole problems. If successful, casing drilling could have a profound impact on the worldwide drilling industry and create another major new marketing opportunity for the Corporation.

Behind Tesco's growth is a commitment to research and development. The Corporation's R&D efforts focus on developing new drilling equipment, technologies and services that reduce the costs of drilling. R&D made important contributions in each of Tesco's businesses and was particularly important in commercializing underbalanced drilling and in overcoming technical challenges in the casing drilling program. In addition, several spin-off technologies were developed during the year, including a modular platform rig concept which has potentially large international applications.

Tesco has grown rapidly from a small one-idea company into an integrated worldwide technology company. To support that growth, Tesco's employee base has risen to more than 850. Tesco has been able to attract and retain high caliber professionals throughout the organization, maintain a strong and liquid financial position and continue to deliver innovative, high quality products and services to our customers. We have introduced new financial, operating and internal controls, legal and human resources capabilities. At the same time, we have maintained our entrepreneurial spirit and have kept our growth momentum intact. Tesco's success and its exciting outlook are a direct reflection of the talent, commitment and imagination of its people.

Notwithstanding the current, short-term uncertainties in the overall oil and gas market, the outlook for Tesco has never been brighter and the Corporation anticipates continued growth in fiscal 1999. With the success we hope for in our R&D efforts, Tesco will end the coming year as a much larger, multi-dimensional oil field services and technology company.

Robert M. Tessari
President and Chief Executive Officer
May 4, 1998



TOP DRIVE RENTAL SERVICE DAYS

Review of Operations

PORTABLE TOP DRIVES

Tesco leads the world in top drive rentals for land and offshore drilling rigs, a market that the Corporation effectively created with the introduction of its innovative line of compact, highly portable hydraulic top drives. Through its Tesco Drilling Technology (TDT) division, the Corporation successfully designs, manufactures, sells, rents and services portable top drive units throughout the world.

Top drives cut costs by significantly improving on traditional drilling methods, which use a 40-foot kelly and a rotary table to transmit torque to the drill pipe. Top drives allow connections to be made with the bit on bottom and allow drilling with up to triple, 90-foot stands of pipe instead of thirty foot, single joints. Top drives rotate drill pipe, hoist and circulate mud simultaneously, substantially reducing the risks of downhole problems. These capabilities result in drilling efficiencies of up to 40% and are particularly important in difficult drilling conditions such as deviated and horizontal wells, which represent a growing portion of the world's oil and gas wells.

Tesco's top drives are fully portable. They can be shipped, at minimal cost, in three, twenty-foot sea containers to any drilling location in the world and can be temporarily installed on virtually all drilling rigs of any size in less than 24 hours. They can be removed just as quickly. This portability

and flexibility gave birth to the top drive rental business, which provides oil and gas companies with the capabilities of top drive drilling for even a portion of a well.

The top drive rental business put Tesco squarely into the service business, which requires that the Corporation do more than deliver a superior product. Tesco must ensure that our top drives perform reliably and effectively. Consequently, Tesco's high quality team of over 150 experienced international drilling personnel supervise each rental top drive in the field, earning the Corporation a solid reputation for performance.

Tesco offers four lines of top drive systems. Three of these lines, the Hydraulic Standard (HS), the Hydraulic Compact (HC) and the Hydraulic Mini (HM) are hydraulically-driven systems well suited to the majority of land rigs which are either mechanical or small electric rigs with insufficient power to run an electric top drive. Tesco's hydraulic top drives add up to 1100 HP to the rig, a necessary addition given the power demands of many of today's difficult drilling programs. Tesco also offers the Electric Compact (EC) line of electric portable top drive systems. The EC system employs revolutionary permanent magnet motor technology and a highly efficient, computerized drive system. This non-sparking, lightweight, electric top drive represents a major technological advance over the AC and DC top drives in use today.



HM Top Drive System installed on a Canadian workover rig for use in re-entry drilling.

During fiscal 1998, TDT upgraded all of its top drive products. These improvements provide dual load ratings (500/650 ton) in the HS/HC/EC top drive models, as well as offer the option of having an integrated swivel in the HC/HM/EC lines. The HM line has been to a 200 ton load rating in order to meet the needs of both small drilling rigs and workover (re-entry) rigs. Improvements to the hydraulic motor and system design have increased the torque and rpm capabilities of Tesco's hydraulic top drive systems significantly. The computerized drive system for the EC line has been modularized in order to provide the flexibility to offer electric top drives with 450, 900 or 1350 HP. This will further open the market for the EC line to large offshore rigs as well as smaller electric land rigs. The upgrades to Tesco's top drive products have also introduced a number of manufacturing efficiencies, helping to offset rising manufacturing costs. Tesco is the only top drive manufacturer that can provide a top drive system for the world's mechanical and electric rigs of all sizes.

During fiscal 1998, Tesco produced 54 new top drives compared with 51 top drive systems built in fiscal 1997. In October 1997, a new 55,000 square foot service center was opened in Houston, Texas to meet the needs of both the large U.S. market and the burgeoning Latin American market.

Sales of top drives rose in fiscal 1998, reflecting the growing reliance on top drive drilling. Tesco sold 27 units during the year, including 5 EC and 6 HM units. This compares to a total of 14 units sold in fiscal 1997. The 1998 sales include six units sold in Indonesia where Tesco facilitated the purchase by providing a buyback guarantee. With the growing acceptance of the benefits of top drive drilling, Tesco expects that top drive sales will continue to expand over the next several years. With the proportion of sold units increasing, the replacement parts market will grow into a sizeable element within TDT's business.

The rental business remained TDT's primary marketing focus in fiscal 1998. During the year, 28 top drives were added to the rental fleet, which rose to 107 units at February 29, 1998, compared to 79 units a year earlier. At February 28, 1998, the Corporation had top drive rental units in 26 countries. At year-end, there were 29 rental units in Canada, 38 in the United States, 28 in Latin America and 12 in other areas.

The number of rental service days rose 59% to 19,547 days in fiscal 1998, compared to 12,307 days in fiscal 1997. The Corporation has been particularly successful in expanding its presence in Latin America and the U.S. Over the past two years, Tesco built a strong worldwide marketing capability with high quality experienced technical personnel. Tesco operational and service capabilities have also grown and the Corporation now has more than 150 experienced field supervisors with a high level of specialized knowledge in top drive operations. These field supervisors represent a significant competitive advantage and a barrier to entry for competitors. Tesco continues to readily attract experienced drilling personnel.

Automated rig control system developed by Kelon Electric allows the driller to direct the drilling process from the doghouse as opposed to the rig floor.

GRIS GUN

Gris Gun Manufacturing Inc. manufactures and distributes a proprietary line of oil and gas well completion products. Its principal products are expandable retrievable hollow steel carrier perforating guns, as well as a growing line of tubing conveyed perforating (TCP) products. The company is the exclusive Canadian distributor for GOEX International Inc.'s line of oil field explosives.

In fiscal 1998, Gris Gun increased sales by 55% over fiscal 1997. The sharp rise in revenues reflects increased oil and gas drilling activity in Canada and strong demand for TCP products, including a number of new products that were well received in the marketplace. The division also benefited from the start of its geographic marketing expansion program, which is placing Gris Gun products in several new oil and gas areas outside of Canada. Sales were made to customers in the United States, Venezuela, Italy, Kazakhstan, Vietnam and Russia and further geographic growth is expected in fiscal 1999.

During the year, Gris Gun began construction of its Downhole Tool Development Centre near its manufacturing facility in Red Deer, Alberta. Site preparation was completed during the year and facilities construction began. The Centre, expected to open during fiscal 1999, will be the most technologically advanced facility of its kind and will be able to prototype and test downhole tools. Gris Gun has also begun the process of certifying its existing quality control program to an ISO 9001 standard. The Corporation believes that the Centre will represent a new standard in downhole tool development and will highlight the division's growing technical expertise in engineering and development. Gris Gun has demonstrated its engineering capability



by developing a number of innovative specialized downhole tools for Tesco's casing drilling program. The company believes that its technical expertise will create further business opportunities through new product development.

KELON/ENER-RIG

Kelon Electric and Ener-Rig Supply Inc. are engaged in the design, supply, service and manufacture of electrical power and control systems for oilfield and industrial applications. Kelon/Ener-Rig is active in the manufacture of Tesco's electric (EC) top drives and has a highly qualified staff of engineers and field service technicians to support EC purchases. During fiscal 1998, the division played a critical technical and product support role in key areas such as the development and installation of integrated control systems for underbalanced drilling, casing drilling and rig automation. Kelon/Ener-Rig continues to play a key role in electric top drive development and worked closely with Tesco's high-technology suppliers of permanent magnet motors and variable frequency drives.

MAINLINE

Mainline Industries designs, manufactures, supplies and services hydraulic systems and components for oilfield and industrial applications. Mainline plays a key role in the success of Tesco's hydraulic top drive business.



Integrated underbalanced drilling system
on location in northern Canada.

Mainline's revenues and profits for fiscal 1998 increased markedly over the previous year. Significant increases were achieved in international sales and tar sands projects, as well as expanded support to the growing top drive division. Mainline continues to focus on engineering development, and the testing and marketing of unique hydraulic systems applications for industry. Examples are the innovative hydraulic control systems for the dual annular diverter and pipe push-pull (snubbing) machines, both used in underbalanced drilling, and the hydraulic drawworks developed for the casing drilling rig. A new drum closure system for delayed cokers in refineries around the world is now complete and will be marketed under a strategic alliance with Foster Wheeler USA Corporation of New Jersey. This closure system complements the unheading system already offered by Mainline through Foster Wheeler.

During the year, Mainline expanded its operations to Houston, offering hydraulics expertise to the top drive division and to its existing refinery customers in that area. Further growth in this important market is anticipated. Technical personnel have been added to the Edmonton, Alberta branch creating additional marketing opportunities in this important forest products, mining and oilfield service centre.

UNDERBALANCED DRILLING (RESERVOIR DRILLING SERVICES)

In fiscal 1998, Tesco substantially expanded its commitment to underbalanced drilling, an emerging drilling technology with substantial market potential. Underbalanced drilling (UBD) technology is utilized to overcome formation damage, which is increasingly cited as one of the most serious problems in conventional well drilling. In conventional drilling, the weight of the mud in the well is designed to exert pressure greater than the expected pressures in a producing formation, thereby ensuring well control and minimizing the risk of a blowout. However, this safety often comes at a significant cost. Mud and cuttings enter the producing formation, often causing substantial damage that requires additional, expensive formation treatment and, in many cases, permanently impairs the well's ability to produce. Underbalanced drilling is a process in which a well is drilled with a mud column lightened by the addition of nitrogen, that exerts a pressure slightly less than the anticipated pressure of the targeted formation. When an underbalanced well encounters a productive formation, oil or gas flows into the well, which keeps the formation from being damaged. In turn, these wells have higher initial production and improved reservoir recoveries. Other benefits of UBD include higher rates of well penetration, a reduction in unscheduled events, simplified and less expensive completions and the ability to have real-time reservoir analysis. In many cases, UBD techniques allow wells to be drilled that could not be drilled conventionally due to lost circulation into under-pressured or fractured zones.

Maintaining control of an underbalanced well is a difficult undertaking, requiring a variety of specialized surface equipment and services. To date, oil companies have had to contract up to eight separate

Reservoir Drilling Systems (RDS) will provide integrated underbalanced drilling packages throughout the world.

sub-contractors in order to provide the equipment necessary to drill underbalanced. This piecemeal approach results in high costs, complicated logistics and co-ordination problems that often cause disappointing results.

In fiscal 1997, Tesco launched an extensive R&D program to develop new UBD technology and to evaluate the feasibility of integrating the numerous services involved. During fiscal 1998, the Corporation determined that it could substantially reduce underbalanced drilling costs and improve performance by developing a highly mobile, fully integrated system. In turn Tesco made a commitment to commercialize its technology. Tesco's first integrated UBD system was completed in December 1997. Patents are pending on key aspects of the UBD system. In January 1998, after extensive shop testing, the prototype system began working for an independent oil and gas producer in northern Alberta. In addition to being the first integrated system ever built, the new system offers options such as a dual annular diverter, comparable to a rotating blowout preventer and pipe push-pull machine for manipulating pipe into or out of an underbalanced well. In addition, Tesco has introduced a proprietary state-of-the-art computerized control system that uses programmable logic controllers to automate many of the functions formerly requiring manual intervention. To date, the system's field performance has been exceptional. The experience gained in operating this system has been incorporated into the new units now under construction.

Based on the strong industry interest in the integrated concept, Tesco committed to build an additional 10 integrated UBD systems during fiscal 1999, including 6 highly mobile trailer units for use primarily in Canada and the U.S. and the balance



designed in sea containers for international assignments. Utilization is expected to be high with operating margins equal to or better than those of the top drive business.

Marketing operations were also accelerated during the year. Tesco opened an underbalanced drilling service office in Denver, Colorado and hired key personnel with extensive backgrounds in air and underbalanced drilling. Industry interest has been high and the Corporation has already begun discussions on large-scale projects in Alaska, North Africa and Latin America.

The Corporation has committed to build 8 stand-alone air drilling spreads. Use of air drilling is a growing means of increasing well penetration rates and reducing drilling time. Air drilling often transitions to full underbalanced drilling and uses many complementary pieces of equipment. Five systems are under construction that will include both nitrogen generation and air compression modules. In addition, the dual annular diverter and pipe push-pull machine will be marketed commercially as alternatives to rotating blowout preventers and snubbing units, both of which are commonly used in UBD.

To support the commitment to underbalanced drilling, Tesco expanded the division's staff, adding personnel in the areas of drilling and equipment engineering, operations and manufacturing. In addition, manufacturing capacity in Calgary was expanded.



The 55,000 square foot operations and service centre opened in Houston in October, 1997 and supports the U.S. and Latin American operations.

DRILLING MANAGEMENT SERVICES (DMS)

DMS is an outgrowth of Tesco's commitment to the needs of its customers. By working with customers to solve drilling problems, the Corporation can provide an important service to customers, demonstrate its technical and operational capability, apply new techniques to old problems, identify new market potential and build a staff of skilled professionals who can be integrated into new Tesco projects. DMS was instrumental in Tesco's decision to enter the integrated underbalanced drilling business by providing hands-on, in-house experience in a variety of drilling environments.

In fiscal 1998, DMS had assignments in 6 countries, managing projects in areas such as Angola, Niger, Algeria and Qatar. Currently, there are 14 professionals working on projects. DMS is expected to play a leading role in commercializing casing drilling.

CASING DRILLING

In 1995, Tesco acquired the patent rights to casing drilling technology, a revolutionary new method for drilling wells. The Tesco Casing Drilling Joint Venture, funded by outside investors, has been developing the technology. In February 1998, Tesco acquired a 100% interest from the joint venture owners for consideration of 418,036 common shares of the Corporation. Prior to the acquisition, Tesco held a 4.691% interest and an option to increase its interest to 50% by making a \$5 million contribution to the Joint Venture.

Drilling with casing, if perfected, could reduce drilling costs by as much as 30%. In conventional drilling, drill pipe must be removed each time a bit or downhole equipment is changed. The time taken to trip, or remove and reconnect the drillpipe, is a time consuming process. With casing drilling, the well is drilled without drillpipe. Instead, the well is drilled with standard oilfield casing, which remains in the hole at all times. The drill bit and other downhole tools are wireline retrieved within the casing and latched to the last joint of casing. Since the casing remains in the well at all times, the integrity of the wellbore is preserved. As a result, many of the problems associated with unscheduled drilling events such as sidetracking, reaming and back-reaming are eliminated. Casing drilling could have significant worldwide commercial potential.

To commercialize casing drilling, Tesco has already overcome many technological hurdles, particularly relating to specialized casing connections, downhole tools and drilling rig design. A specialized casing drilling rig was completed early in fiscal 1999, utilizing a telescopic double land rig fitted with a Tesco top drive. Extensive engineering effort was devoted to the construction of this rig and a number of technical innovations resulted in new rig concepts that themselves have market potential. An integral part of the program was the testing and selection of casing connections capable of withstanding the torque of conventional drilling operations. Through a cooperative program with a manufacturer of oil country tubular goods, an extensive testing program was undertaken and a premium casing connection was selected that meets Tesco's requirements. Gris Gun has developed a prototype set of downhole tools specially designed for casing drilling and, after extensive surface testing, developed a second generation

The casing drilling rig demonstrates the modular rig design concept that is expected to be well suited to new offshore platform rig construction.

series incorporating changes based on the shop testing program.

The first well in the casing drilling program is expected to commence drilling in the Corporation's research and development centre in Calgary by the end of May, 1998. The well is scheduled to be a straight hole with a total planned depth of approximately 2,000 feet. As part of the initial drilling, Tesco will extensively test the rig's capability, the integrity of the casing and the effectiveness of the collapsible drill bit and other downhole tools. An initial evaluation of the system, which will probably be completed in early 1999, will be instrumental in determining if and how quickly the system can be commercialized. If a decision is made to go forward, management currently estimates that commercial marketing of the technology could begin within one year.

Although Tesco has not yet commercialized casing drilling technology, the Corporation made a number of presentations to some of the world's largest oil companies, who expressed considerable interest. Companies were particularly interested in possible application to complicated drilling projects, such as high angle and horizontal wells, as well as programs requiring numerous simple vertical wells in fields where logging, testing and extensive completion operations are not required.

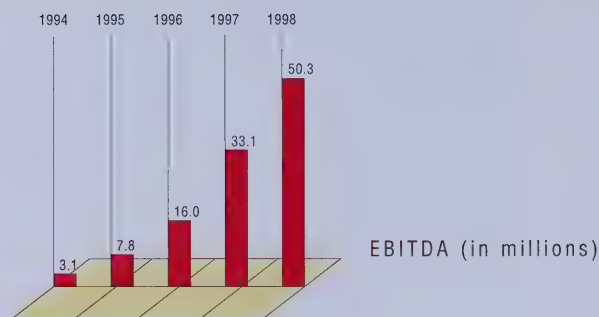
Initial industry response supports Tesco's belief that casing drilling has tremendous market potential. Worldwide, the oil and gas industry spends more than \$35 billion annually on drilling operations where significant portions of time are lost due to tripping drill pipe and to unscheduled events.



RESEARCH AND DEVELOPMENT

Research and development represents the driving force behind Tesco's success. The Corporation has been built on the belief that new ideas and new approaches can reduce the cost of drilling oil, gas and geothermal wells through innovative equipment, technology and services. As the Corporation has grown, the depth and breadth of its R&D capability has grown as well. The Corporation has gained enormous technical capacity from its subsidiaries Gris Gun (downhole tools), Kelon/Ener-Rig (electronics), Mainline Industries (hydraulics) and DMS (drilling engineering). The combination of these disciplines gives Tesco a unique capacity to develop smart tools and equipment that can improve the drilling process.

During fiscal 1998, Tesco developed a new concept for a modular (sea container) platform rig which could have a large potential market internationally. The design resulted from work on Tesco's casing drilling rig program. In conjunction with this rig, a new lightweight hydraulic drawworks was designed that is more space efficient and much simpler mechanically than the existing units. The drawworks can be packaged with a Tesco hydraulic top drive for an inexpensive, immediate upgrade of existing drilling rigs. The R&D centre has been instrumental in the development of new innovations for the Company's top drives, underbalanced drilling and casing drilling.



Management's Discussion and Analysis

The following is an historical review of Tesco's financial and operating results and should be read in conjunction with the consolidated financial statements of the Corporation for the years ended February 28, 1998 and February 28, 1997.

ANALYSIS OF OPERATIONS

Year Ended February 28, 1998

Total sales increased by 71% to \$163.7 million from \$95.7 million. Gross margin increased by 54% to \$69.5 million from \$45.0 million.

Sales in the top drive division increased by 62% to \$118.4 million as a result of an increase in rental days to 19,547 from 12,307 and the sale of 27 top drive systems in the current fiscal year, compared to 14 in the previous year. The Corporation increased its top drive rental fleet to 107 systems at February 28, 1998 from 79 at February 28, 1997.

Sales by the completions division were \$19.9 million during the year ended February 28, 1998 compared to \$12.8 million in the preceding year. Management believes that the sales of this division are directly related to the number of oil and gas wells drilled in Western Canada which totalled approximately 16,500 in calendar year 1997 compared to 12,600 in 1996.

Third party sales from the electrical and the hydraulics division totalled \$23.1 million, an increase of 143% from the previous year, although

the divisions were only included in the previous year for approximately nine to ten months. In addition, these divisions generated \$21.7 million of sales to other divisions which are excluded from consolidated sales.

Direct costs of the top drive division were up from \$34.7 million in fiscal 1997 to \$62.7 million in fiscal 1998 primarily due to the increase in sales and rental activities and the related number of employees.

The Corporation's Research and Development Centre in Calgary, which was established in May 1996, has increased its activity levels significantly. In addition, revenues for this division have increased to \$2.2 million in the current year from \$0.3 million in the previous year. The activity during the year included the continued development of the casing drilling project and the engineering design and construction of two innovative telescoping double drilling rigs, which are being built under a cost plus contract with a drilling contractor.

Overall gross margins decreased from 47% in fiscal 1997 to 42% in fiscal 1998 as a result of the increased percentage of sales contributed by the hydraulic, electrical and completions divisions, which are lower margin businesses than the top drive division and an increase in the volume of after-sale support revenues in the top drive division.

Depreciation and amortization expense increased from \$5.4 million to \$7.9 million due to the increase in the fleet of rental portable top drive systems, amortization of goodwill on acquisitions completed in fiscal 1997 and other capital asset additions.

Selling and general and administration expenses were up by \$1.9 million and \$5.3 million respectively reflecting increased sales activities and higher administrative support requirements. Research and development expenses increased by \$0.6 million.

Financial income for the year increased to \$1.3 million from \$0.8 million in the previous year. This increase was attributable primarily to an increase in interest income as a result of the investment of the net proceeds of the sale of 2,200,000 common shares in September, 1997. During the year, the Corporation entered into a series of forward exchange contracts to fix the Canadian dollar value of a portion of its U.S. dollar denominated cash flows. Management estimates that had these contracts not been undertaken the Corporation would have reported additional foreign exchange gains of \$0.7 million.

Current tax expense was \$16.6 million compared with \$8.6 million in the previous year and deferred tax expense was \$0.5 million compared to \$2.6 million in the previous year. The combined tax provision was 40.5% of income before taxes compared to 40.6% in fiscal 1997. At February 28, 1998 the Corporation had Canadian

tax pools totalling approximately \$61.2 million compared to \$46.0 million at February 28, 1997. The Corporation changed its accounting policy with respect to deferred tax from the deferral method to the liability method. This resulted in a prior period adjustment of \$0.14 million at February 28, 1998. In addition the group's tax provision was increased by \$0.2 million resulting from an increase in the historical rate of accumulation of deferred tax timing differences to the fiscal 1998 average rate.

Additions to capital assets were \$47.8 million during the year compared to \$28.6 million during the preceding year. These additions included \$18.6 million spent on increasing the rental top drive fleet; \$9.6 million spent on constructing underbalanced drilling equipment; and \$2.6 million to complete construction of the new operations facility for the Corporation in Houston, Texas. Also, during the year \$12.1 million was added to technology and development costs as a result of the acquisition of all of the units of the Casing Drilling Joint Venture in February, 1998 for 418,036 common shares.

On September 22, 1997 the Corporation issued 2,200,000 common shares at \$23.00 each. The net cash proceeds of this issue after commissions and offering costs were \$48.3 million. Other share capital issues with respect to share purchase options and warrants totalled \$9.1 million.

Year Ended February 28, 1997

Total sales increased by 128% to \$95.7 million from \$41.9 million. Gross margin increased by 111% to \$45.0 million from \$21.3 million.

Sales in the top drive division increased by 119% to \$73.1 million as a result of an increase in rental days to 12,307 from 7,055 and the sale of 14 top drive systems in the year, compared to 6 in the previous year. The Corporation increased its top drive rental fleet to 79 systems at February 28, 1997 from 42 at February 28, 1996.

Sales by the completions division were \$12.8 million during the year ended February 28, 1997 compared to \$8.2 million in the preceding year. Management believes that the sales of this division are directly related to the number of oil and gas wells drilled in Western Canada which totalled approximately 12,600 in calendar year 1996 compared to 10,900 in 1995.

Sales in the electrical division (Kelon and Ener-Rig) and the hydraulic division (Mainline Industries) totalled \$9.5. In addition, these divisions generated \$5.8 million of sales to the top drive division which are excluded from consolidated sales.

Cash gross margins showed a minor decrease from 51% in fiscal 1996 to 47% in fiscal 1997 as a result of the acquisition of Kelon, Ener-Rig and Mainline which are lower margin businesses.

Depreciation and amortization expense increased from \$2.1 million to \$5.4 million due to the increase in the fleet of rental portable top drive systems, amortization of goodwill on acquisitions completed in fiscal 1997 and other capital asset additions.

Selling and general and administration expenses were up by \$2.4 million and \$4.0 million respectively, reflecting increased sales activities and higher administrative support requirements. Research and development expenses increased by \$0.8 million; however the costs of the development of the Corporation's electric top drive and miniature hydraulic top drive were largely recovered by the sale of the prototype units and, therefore, are not reflected in this expense.

Current tax expense was \$8.6 million compared with \$4.1 million in the previous year and deferred tax expense was \$2.6 million compared to \$1.1 million in the previous year. The combined tax provision was 40.6% of income before taxes compared to 37.3% in fiscal 1996. During the current year the Company exhausted its remaining United States tax loss carry forward. At February 28, 1997 the Corporation had Canadian tax pools totalling approximately \$46 million compared to \$26.0 million plus U.S. tax loss carry forwards of approximately US\$1 million at the end of the preceding fiscal year.

Financial Performance – Previous Twelve Quarters



* Earnings before interest, taxes, depreciation and amortization.

Additions to capital assets were \$28.6 million during the year compared to \$19.3 million during the preceding year. These additions included \$25.4 million at the top drive division which were comprised mainly of rental portable top drive systems; \$0.7 million consisting of capital assets purchased during the acquisition of Mainline and Kelon/Ener-Rig; and \$2.5 million with respect to the purchase and equipping of the Corporation's Head Office and Research and Development Centre in southeast Calgary.

On April 1, 1996 the Corporation acquired the business of Weissenborn Oil Tool Ltd. for \$1.1 million. This company provides tubing conveyed perforating equipment and it has been successfully integrated into the business of the Gris Gun/Perfx Division. On May 1, 1996 Kelon Electric Ltd. and Ener-Rig Supply Ltd. were acquired for a total consideration of \$2.6 million cash. On July 2, 1996 Mainline Hydraulics Ltd. was acquired for \$3.9 million cash with an effective date of June 1, 1996. The acquisition of these businesses included purchases of goodwill totalling \$4.4 which resulted in amortization expense of \$0.5 in the year ended February 28, 1997. During fiscal 1997 sales from these acquired businesses totalled \$15.7 million before intercompany eliminations of \$5.8 million.

On April 4, 1996 the Corporation sold 2,000,000 special warrants at \$10.00 each. The net cash proceeds of the sale of these special warrants after

commissions and offering costs were \$18.8 million. Other share capital issues with respect to share purchase options and warrants totalled \$7.4 million.

LIQUIDITY AND CAPITAL POSITION

At February 28, 1998 the Corporation's working capital position was \$84.5 million compared to \$28.4 million at February 28, 1997. Each of accounts receivable, inventory and accounts payable increased significantly due to the increase in the Corporation's activities. In December 1997 the Corporation sold 6 top drive systems to a customer in Indonesia for US\$6.2 million subject to a guarantee to the purchaser's lender. In view of the uncertainty of current conditions in Indonesia the resulting profit is included in these financial statements under accounts payable and will be included in future income only to the extent that the purchaser meets its obligations to its lender.

The Corporation has a credit facility consisting of an operating line of \$10.0 million and a revolving term facility of \$10.0 million repayable over 5 years. The Corporation intends to draw on this facility as required to finance its ongoing cash requirements. Management believes that its banking arrangements together with the funds generated from operations will be sufficient to meet the Corporation's capital needs for the 1998 fiscal year.

Outlook

TOP DRIVE DIVISION

In the first quarter of F/Y1999 the top drive division was adversely affected by the reduction in demand for top drive services in Canada and to some extent in the United States due to the reduction in spot oil prices and industry curtailments of exploration and production expenditures particularly in the heavy oil sector. The Corporation has taken steps to redeploy underutilized rental equipment to potential new markets in Latin America, the former Soviet Union and North Africa and opened a new marketing office in Europe in March 1998. The Corporation believes that there are substantial

opportunities outside of the Americas for its top drive products. During F/Y1998, significant increases in business volume were achieved in Latin America as well as increased in business volumes in Europe and Africa. Tesco anticipates additional business will be generated in China and the former Soviet Union.

The Corporation also anticipates increased volumes of top drive systems sold, with emphasis on its state-of-the-art permanent magnet electric top drive systems. Production plans have been modified accordingly.

Market Definition by Rig Count

Type/Location of rig	Total Available	Total Operating	Fitted with Top Drive
Offshore	942	882	685
Conventional Land			
Canada and USA	1,995	1,410	
Europe and Africa	130	110	
Middle and Far East	275	235	
Latin America	290	210	
China and FSU (former Soviet Union)*	1,700	1,200	
Total	4,390	3,165	400
Service Rigs	9,000	5,000	minimal

* Tesco Corporation estimates as at February, 1998

UNDERBALANCED DRILLING DIVISION

Subject to confirmed customer demand, the Corporation expects to invest up to \$34 million in F/Y1999 on construction of underbalanced and air drilling equipment. The Corporation has received numerous expressions of interest for such equipment both in North America and elsewhere from both operators and contractors. Significant impact from these activities, if successful, can be expected in the third and fourth quarters of F/Y1999.

CASING DRILLING POTENTIAL

Having acquired the balance of the Casing Drilling Joint Venture in February 1998, the Corporation expects that practical testing of the concept will commence in May 1998. If the technical hurdles can be successfully overcome field testing could commence as early as the 1998/99 winter thus opening up the potential for commercialization of the project within two years.

YEAR 2000 COMPUTER ISSUES

Much has been written about the potential problems that could arise with computer programs because older computer programs utilize a two digit field for denoting the current year. Thus the year 2000 would be entered as "00" and recognized by the systems as the year 1900 which could cause significant problems unless the computer program is modified. The Corporation's computer systems have all been acquired in the last three years and no year 2000 problems are anticipated. The Corporation's principal bankers have advised that potential problems in the year 2000 are being dealt with appropriately. The Corporation has not surveyed its major customers and suppliers with respect to this issue but does not expect any significant disruption to its activities from this source.



**UNDERBALANCED
DRILLING
WORLDWIDE
MARKET
POTENTIAL***
(number of wells)

* Source: Oil and Gas Journal, September 1996.

Management's Report

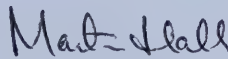
Management is responsible for the preparation of the consolidated financial statements and the information contained in this annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using appropriate accounting policies, methods and estimates as selected by management giving consideration to the Corporation's circumstances. The financial and operating information included in this annual report is consistent, in all material respects, with that contained in the consolidated financial statements.

The Corporation maintains systems of accounting and internal controls to provide reasonable assurance that its financial information is reliable, relevant and accurate, and that its assets are adequately safeguarded.

The Audit Committee, consisting of three non-executive directors, is responsible for reviewing the consolidated financial statements and other financial information contained in this annual report and overseeing management's performance of its financial reporting responsibilities. The Audit Committee has reviewed these financial statements with management and the auditors. The external auditors have unlimited access to the Audit Committee, are appointed by the Shareholders, and have independently examined the consolidated financial statements on the recommendation of the Audit Committee.



ROBERT M. TESSARI
President and Chief Executive Officer



MARTIN HALL
Senior Vice-President, Finance and Secretary

Auditors' Report

To: The Shareholders of Tesco Corporation

We have audited the consolidated balance sheets of Tesco Corporation as at February 28, 1998 and 1997 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements presently fairly, in all material respects, the financial position of the Corporation as at February 28, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



PRICE WATERHOUSE
Chartered Accountants

CALGARY, ALBERTA
May 1, 1998

Consolidated Balance Sheets

	NOTES	1998 \$	1997 \$
As at February 28			
(Thousands of Canadian Dollars)			
ASSETS			
Current assets			
Cash and short-term deposits		28,179	4,597
Accounts receivable		56,102	29,876
Inventories	4	33,158	11,966
		117,439	46,439
Capital assets	5	99,036	58,561
Goodwill and other assets	6	4,020	4,416
		220,495	109,416
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		31,695	12,451
Income taxes payable	7	1,226	5,575
		32,921	18,026
Deferred income taxes	7	8,772	4,346
		41,693	22,372
SHAREHOLDERS' EQUITY			
Share capital	8	123,930	57,326
Retained earnings		54,872	29,718
		178,802	87,044
		220,495	109,416

Signed on behalf of the Board of Directors



ROBERT M. TESSARI
Director



WILLIAM S. RICE
Director

Consolidated Statements of Earnings

	NOTES	1998 \$	1997 \$
For the years ended February 28			
(Thousands of Canadian Dollars except for per share amounts)			
Sales		163,659	95,697
Cost of sales		94,201	50,729
Gross Profit		69,458	44,968
EXPENSES			
Depreciation and amortization		7,893	5,434
General and administration		12,330	7,046
Selling		6,715	4,834
Research and development		1,505	897
Financial (income) expense	9	(1,276)	(825)
		27,167	17,386
Earnings before income taxes		42,291	27,582
Income taxes:			
current	7	16,624	8,629
deferred	7	513	2,569
		17,137	11,198
Net earnings for the year		25,154	16,384
Net earnings per share:			
basic		0.87	0.64
fully-diluted		0.82	0.59

Consolidated Statements of Retained Earnings

For the years ended February 28			
(Thousands of Canadian Dollars)			
Retained earnings – beginning of the year			
as previously reported		29,856	12,974
effect of change in accounting policy	2	(138)	360
as restated		29,718	13,334
Net earnings for the year		25,154	16,384
Retained earnings – end of the year		54,872	29,718

Consolidated Statements of Changes in Financial Position

	NOTES	1998 \$	1997 \$
For the years ended February 28			
(Thousands of Canadian Dollars)			
OPERATING ACTIVITIES			
Net earnings for the year		25,154	16,384
Adjusted for items not involving funds –			
Deferred income taxes		513	2,569
Depreciation and amortization		7,893	5,434
		33,560	24,387
Changes in non-cash working capital balances		(32,523)	(14,106)
		1,037	10,281
INVESTING ACTIVITIES			
Business acquisitions	12	617	(7,603)
Additions to capital assets		(35,701)	(28,563)
Goodwill and other assets (net)		(186)	169
		(35,270)	(35,997)
FINANCING ACTIVITIES			
Issue of share capital		59,681	27,441
Share issue costs		(1,866)	(1,220)
		57,815	26,221
Net increase in cash position during year		23,582	505
Net cash and short term deposits – beginning of year		4,597	4,092
Net cash and short term deposits – end of year		28,179	4,597

Non-cash working capital consists of accounts receivable and inventories less accounts payable and accrued liabilities and income taxes payable.

Notes to the Consolidated Financial Statements

For the years ended February 28, 1998 and 1997

(Thousands of Canadian Dollars)

1. Accounting Policies

a. CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and its domestic and foreign subsidiaries, all of which are wholly-owned.

b. FOREIGN CURRENCY TRANSLATION

The Corporation's U.S. operations are considered to be fully integrated and all amounts in U.S. currency have been translated to Canadian dollars on the following basis:

- (i) monetary assets and liabilities, at the exchange rate prevailing at year end;
- (ii) non-monetary assets and liabilities, including deferred income taxes, at the historic rate of exchange;
- (iii) revenues and expenses (excluding depreciation and amortization which are translated at the same rate as the related assets), at the average rate of exchange for the period.

Resulting foreign exchange translation gains and losses, including those arising from other transactions denominated in foreign currencies, are included in the statement of earnings.

c. INVENTORIES

Inventories are valued at the lower of cost and net realizable value. Cost of raw materials and finished goods is calculated on an average-cost basis. Work in progress includes raw materials, direct labour and applicable factory overhead.

d. CAPITAL ASSETS

The Corporation's fleet of rental top-drive systems is included as drilling equipment in capital assets. The sale of rental top drive systems results in the net book value of such systems being expensed as a cost of sale.

e. DEPRECIATION AND AMORTIZATION

Depreciation and amortization are provided for on the straight-line method based on the estimated useful lives of the various major classes of assets as follows:

	estimated useful life in years
Buildings	20
Drilling equipment	12
Manufacturing equipment	5
Technology and development costs	12

Office furniture and equipment and small tools are depreciated on the declining-balance method at rates ranging from 20-30%. Certain other capital assets are depreciated on the straight-line basis at rates varying between one and ten years. The estimated residual value of these assets is immaterial.

f. GOODWILL

Goodwill represents the excess of the cost of the purchase of various businesses over the net book value of their underlying net assets at the date of acquisition and is being amortized on a straight-line basis over five to ten years.

Operations of the businesses to which the goodwill relates are assessed annually to

determine the appropriateness of the carrying value of the goodwill.

g. **RESEARCH AND DEVELOPMENT**

The Corporation expenses research costs. Costs of product development for specific applications, which in the opinion of management are marketable, are capitalized as technology and amortized over the expected useful life of the asset. Product development costs that are capitalized are assessed periodically to determine if the carrying value is still appropriate.

h. **PER SHARE INFORMATION**

Per share information is computed using the weighted average number of common shares outstanding during the year. Fully-diluted per share information is computed assuming that all options and warrants are exercised at their date of issue and the proceeds invested to generate earnings at an after tax yield equal to the expected income on investment of the proceeds.

i. **COMPARATIVE NUMBERS**

Certain of the 1997 comparative numbers have been reclassified to conform with the 1998 presentation.

2. Change in Accounting Policy

The Corporation has adopted a change in its method of accounting for deferred taxes. Previously, the Corporation had provided deferred taxes based on differences between reported income before tax and taxable income in a period arising as a result of items being included in reported income and taxable income

in different periods; such deferred taxes were computed at tax rates in effect when the timing difference arose and were not subsequently adjusted for changes in tax rates. The Corporation now provides deferred taxes on differences between the reported amounts of assets and liabilities on the balance sheet and their values for tax purposes; these differences are measured at the end of each reporting period and deferred taxes are computed at current tax rates. To the extent differences arise as a result of tax loss carry forwards, the Corporation now recognizes the benefit of these losses when it is probable that they will be used to reduce future taxes payable, rather than recognizing the benefit when it was realized as was previously the case. This change has been applied retroactively, resulting in changes to previously reported deferred income tax liabilities and expense and retained earnings. Net earnings for the year ended February 28, 1997 have been reduced by \$498; basic and fully-diluted earnings per share for the year ended February 28, 1997 have been reduced by \$0.02 and \$0.01 respectively. Had the Corporation not changed its policy, net earnings for the year and retained earnings at the end of the year would have increased by \$218 and the liability for deferred income taxes at the end of the year would have been decreased by \$218.

3. Financial Instruments

The Corporation's financial instruments are substantially all cash and trade receivables and payables, the book value of which approximates their fair value. The Corporation's accounts receivable are principally with major international oil and gas service and exploration and production companies and are subject to normal industry credit risks.

A substantial portion of the Corporation's sales are denominated in U.S. dollars; the Corporation's management monitors the expected level of these sales and places appropriate currency hedges with major financial institutions when warranted. At February 28, 1998, the Corporation had committed to sell US\$2,200 at a rate of Cdn\$1.3602 in March, 1998. During the year ended February 28, 1998, the Corporation sold a total of US\$8,800 at an average rate of Cdn\$1.3494 pursuant to forward exchange contracts; the Corporation's average spot exchange rate for the year was Cdn\$1.40.

The Corporation has negotiated a credit facility with its bankers that provides a maximum loan of \$20,000, of which \$10,000 is available as an operating loan and \$10,000 is available as a term loan. Security for advances under this facility is provided by a specific

assignment of accounts receivable and a general charge on all the assets of the business. Interest on amounts drawn under the facility is at the bank's prime rate for the operating loan and at prime plus one-half of one percent for the term loan. The term loan facility is repayable over a maximum of five years, with equal monthly principal payments required for three years starting from the end of the second year. At February 28, 1998, no amounts were drawn under the facility.

4. Inventories

	1998	1997
Raw materials	\$ 19,961	\$ 8,144
Work in progress	3,346	258
Finished goods	9,851	3,564
	\$ 33,158	\$ 11,966

5. Capital Assets

	Cost	Accumulated Depreciation and Amortization	Net Book Value
At February 28, 1998			
Land, buildings and leaseholds	\$ 6,401	\$ 558	\$ 5,843
Drilling equipment	83,592	9,750	73,842
Manufacturing equipment	4,646	1,369	3,277
Technology and development costs	14,527	1,001	13,526
Office and other	4,095	1,547	2,548
	\$ 113,261	\$ 14,225	\$ 99,036
At February 28, 1997			
Land, buildings and leaseholds	\$ 3,566	\$ 327	\$ 3,239
Drilling equipment	55,759	5,635	50,124
Manufacturing equipment	2,608	792	1,816
Technology and development costs	2,442	798	1,644
Office and other	2,529	791	1,738
	\$ 66,904	\$ 8,343	\$ 58,561

Drilling equipment includes related manufacturing costs and overhead. Work in progress relating to drilling equipment under construction totalling \$3,248 (1997– \$1,956) is not depreciated. The net book value of drilling equipment included in cost of sales for the year is \$7,976 (1997– \$1,204).

6. Goodwill and Other Assets

	1998	1997
Goodwill	\$ 4,937	\$ 4,786
Accumulated amortization	(1,248)	(666)
	3,689	4,120
Other assets	331	296
	\$ 4,020	\$ 4,416

7. Income Taxes

Income tax expense, which is 40.5% of income before income tax (1997– 40.6%), varies from the amounts that would be computed by applying the combined federal and Alberta provincial income tax rate of 44.6% (1997– 44.6%) due to the following factors:

	1998	1997
Income before tax	\$ 42,291	\$ 27,582
Expected tax expense	18,862	12,302
Reduction of expected tax expense as a result of:		
Tax rates applied to earnings not attributed to Alberta	1,109	744
Reduced tax rate on manufacturing operations	616	360
Income tax expense for the year	\$ 17,137	\$ 11,198

No provision is made for taxes that may be payable on the repatriation of accumulated earnings in foreign subsidiaries on the basis that these earnings will continue to be used to finance the activities of these subsidiaries.

8. Share Capital

a. AUTHORIZED

- Unlimited common shares without par value
- Unlimited first preferred shares issuable in series
- Unlimited second preferred shares issuable in series

b. ISSUED COMMON SHARES

	Number of shares	Amount
Balance – February 28, 1996	22,626,403	\$ 30,619
Issued for cash on exercise of special warrants	2,000,000	20,000
Issued for cash on exercise of stock options	544,304	1,120
Issued for cash on exercise of share purchase warrants	2,160,150	6,321
Share issue costs (net of deferred tax benefits of \$486)		(734)
Balance – February 28, 1997	27,330,857	\$ 57,326
Issued for cash pursuant to prospectus	2,200,000	50,600
Issued for cash on exercise of stock options	477,206	3,445
Issued for cash on exercise of share purchase warrants	943,351	5,636
Issued in exchange for Casing Drilling Joint Venture interests (note 12)	418,036	8,131
Share issue costs (net of deferred tax benefits of \$ 1,064)		(1,208)
Balance – February 28, 1998	31,369,450	\$ 123,930

c. SPECIAL WARRANTS

On April 4, 1996, the Corporation sold 2,000,000 Special Warrants at a price of \$10.00 each; these Special Warrants were converted to common shares and the shares were qualified for distribution pursuant to a prospectus filed by the Corporation dated June 20, 1996.

d. STOCK OPTIONS

Stock options to purchase 2,834,700 common shares have been granted to the directors, senior officers and key employees and are outstanding. These options range in price from \$2.50 to \$25.75 and expire on various dates to January 21, 2003. The gross proceeds to the Corporation if all these options were exercised would be \$33,755.

9. Financial (Income) Expense

Items comprising net financial income are:

	1998	1997
Interest income	\$ 1,342	\$ 758
Interest expense	(155)	(195)
Foreign exchange gain	103	175
Other financial (charges) gains	(14)	87
	\$ 1,276	\$ 825

10. Commitments and Contingencies

The Corporation has non-cancelable lease commitments for its manufacturing and operations facilities as follows:

Years ending February 28	\$
1999	706
2000	708
2001	550
2002	412
2003	164
Thereafter	59

During the year, the Corporation sold six top drive systems to a customer in Indonesia. A term of the sale required the Corporation to provide a guarantee of the financing obtained for the purchase. The gain on sale has been deferred in these financial statements to offset any potential loss that may be realized under the guarantee. The amount of the guarantee at February 28, 1998 was US\$6,230.

11. Segment Information

The Corporation has five operating divisions which provide different products and services to the Corporation's customers. The Corporation's operations are principally in the oil and gas service sector. Each division has its own management and reports separately to the Corporation's executive. The operating divisions are:

- **Top drive division** – manufactures, rents and sells proprietary top drive equipment to drilling contractors and oil and gas operators;
- **Hydraulic division** – provides a wide range of hydraulic systems and services to customers, including other operating divisions of the Corporation;
- **Electrical division** – provides a wide range of electrical systems and services to customers, including other operating divisions of the Corporation;
- **Completions division** – designs, manufactures and sells down hole completion devices for the oil and gas industry;
- **Research, engineering and construction division** – researches and develops innovative drilling equipment for commercial exploitation by the Corporation and for third parties.

Operating divisions report their results of operations to the level of earnings before income taxes. Income taxes, together with interest and other revenues and management and administrative costs of the corporate office, are not allocated to operating divisions.

Significant financial information relating to the operating divisions is as follows:

	Top drive	Hydraulic	Electrical	Completions	Research, engineering and construction	Total
Year to February 28, 1998						
Sales:						
third party	\$ 118,435	\$ 7,173	\$ 15,973	\$ 19,910	\$ 2,168	\$ 163,659
internal		7,897	13,845	92		21,834
Depreciation and amortization	6,304	335	296	719	152	7,806
Earnings before income taxes	39,715	1,813	1,102	4,374	(835)	46,169
Assets employed	132,273	7,464	14,071	13,939	24,795	192,542
Capital expenditures	23,023	252	548	992	10,205	35,020
Year to February 28, 1997						
Sales:						
third party	\$ 73,143	\$ 1,698	\$ 7,776	\$ 12,756	\$ 324	\$ 95,697
internal		3,578	2,203			5,781
Depreciation and amortization	4,374	218	180	535	10	5,317
Earnings before income taxes	28,499	35	542	2,195	(456)	30,815
Assets employed	84,112	5,339	5,916	10,122	323	105,812
Capital expenditures	26,158	196	445	520	323	27,642

Totals for operating division information reconcile to the consolidated financial statements as follows:

	Depreciation and amortization	Earnings before income taxes	Assets employed	Capital expenditures
Year to February 28, 1998				
Operating division total	\$ 7,806	\$ 46,169	\$ 192,542	\$ 35,020
Adjustments for:				
Inter-division profit elimination	(54)	(1,366)	(2,018)	(845)
Corporate items	141	(2,512)	29,971	1,526
	\$ 7,893	\$ 42,291	\$ 220,495	\$ 35,701
Year to February 28, 1997				
Operating division total	\$ 5,317	\$ 30,815	\$ 105,812	\$ 27,642
Adjustments for:				
Inter-division profit elimination		(652)	(1,768)	(628)
Corporate items	117	(2,581)	5,372	1,549
	\$ 5,434	\$ 27,582	\$ 109,416	\$ 28,563

The Corporation generated sales and owned capital assets and goodwill in the following areas of the world:

	Sales	Capital assets and goodwill
Year to February 28, 1998		
Canada	\$ 56,974	\$ 66,560
United States	50,679	15,748
Latin America	25,172	14,707
Southeast Asia	15,760	2,587
Other countries	15,074	3,123
Year to February 28, 1997		
Canada	\$ 49,218	\$ 35,797
United States	14,862	9,673
Latin America	16,022	8,137
Southeast Asia	7,044	5,275
Other countries	9,464	3,799

12. Acquisitions

During the year ended February 28, 1998, the Corporation acquired the business and net assets of the Casing Drilling Joint Venture as a result of an offer to purchase all of the units of the Joint Venture not already owned by the Corporation. Consideration for the purchase consisted of 418,036 common shares of the Corporation. The Casing Drilling Joint Venture is developing equipment and technology to permit the drilling of oil and gas wells with casing. The activities of the Joint Venture are based at the Corporation's Research and Development Centre in Calgary. Prior to

the acquisition, which occurred in February, 1998, the Corporation held an investment of less than 5% of the units of the Joint Venture. This investment was included at cost in other assets.

During the year ended February 28, 1997, the Corporation acquired the businesses and assets of Weissenborn Oil Tools, Kelon Electric, Ener-Rig Supply and Mainline Industries. These acquisitions were recorded as purchases and the results of operations have been included in operations from the dates on which the businesses were acquired. Weissenborn operates in the perforating tools business, Kelon and Ener-Rig operate in the electrical contracting and supply business and Mainline operates in the hydraulics contracting and supply business. All the businesses acquired are based in Alberta.

Net assets acquired and consideration given up to acquire these businesses were:

	1998	1997
Net assets acquired:		
Working capital	\$ 718	\$ 2,453
Fixed assets	12,085	711
Goodwill		4,439
	12,803	7,603
Deferred taxes	4,571	
	8,232	7,603
Consideration:		
Cash	101	7,603
Common shares	8,131	
	\$ 8,232	\$ 7,603

13. Reconciliation to United States Generally Accepted Accounting Principles

The consolidated financial statements of the Corporation are prepared using accounting principles that are generally accepted in Canada. These principles differ in some material respects from those that are generally accepted in the United States. For the years ended February 28, 1998 and 1997, the principal differences that result in material measurement changes in the consolidated financial statements of the Corporation are:

a. ACCOUNTING FOR RESEARCH AND DEVELOPMENT COSTS

Costs of product development that are capitalized as technology and amortized under Canadian GAAP are required to be expensed in the period incurred under U.S. GAAP. Included in the expense for the current year is the cost, net of deferred taxes, attributed to technology and development costs arising from the acquisition of the Casing Drilling Joint Venture; for U.S. GAAP purposes, this cost includes the valuation attributed to the options and warrants issued to Casing Drilling subscribers (see note 13b).

b. VALUATION OF OPTIONS AND WARRANTS

U.S. GAAP requires that options and warrants issued for other than compensation purposes be accounted for at their fair value at the date granted. In December, 1995, the Corporation granted 980,000 options and warrants in conjunction with the formation of the Casing Drilling Joint Venture. These options and

warrants had a fair value at their grant date of approximately \$3,675, which amount would be added to the Corporation's investment in and subsequent acquisition of the Casing Drilling Joint Venture and to share capital for U.S. GAAP purposes.

c. REDUCTION OF CAPITAL

In November 1993, the Corporation reduced its share capital by \$13,842 to eliminate its accumulated deficit. U.S. GAAP requires that the financial statements continue to reflect this accumulated deficit by restating share capital on the basis that the reduction had not occurred.

d. COMPUTATION OF EARNINGS PER SHARE

Canadian GAAP requires the computation and presentation of basic and fully diluted earnings per share, whereas U.S. GAAP requires the computation of basic and diluted earnings per share. The respective calculations of fully-diluted earnings per share under Canadian GAAP and diluted earnings per share under U.S. GAAP differ principally in that, under Canadian GAAP, the dilutive effect of contingent common share issues is calculated by assuming a rate of return on the notional proceeds from contingent issues, whereas under U.S. GAAP, the treasury stock method is used.

The effect of these differences on the reported results and financial position of the Corporation is as follows:

Consolidated Statements of Earnings

	1998	1997
Net earnings – Canadian GAAP	\$ 25,154	\$ 16,384
Adjusted for:		
Research and development costs	(11,107)	125
Net earnings – U.S. GAAP	14,047	16,509
Net earnings (in accordance with U.S. GAAP) per common share:		
U.S. GAAP – diluted	\$ 0.47	\$ 0.59

Consolidated Statements of Retained Earnings

	1998	1997
Retained earnings, beginning of year – Canadian GAAP	\$ 29,718	\$ 13,334
Adjusted for:		
Cumulative effect of research and development costs	(980)	(1,105)
Reduction of share capital	(13,842)	(13,842)
U.S. GAAP	14,896	(1,613)
Net earnings for the years – U.S. GAAP	14,047	16,509
Retained earnings, end of year – U.S. GAAP	\$ 28,943	\$ 14,896

Consolidated Balance Sheets

	1998	1997
Capital assets – Canadian GAAP	\$ 99,036	\$ 58,561
Adjusted for:		
Research and development costs	(13,526)	(1,644)
U.S. GAAP	85,510	56,917
Goodwill and other assets – Canadian GAAP	4,020	4,416
Adjusted for:		
Valuation of options and warrants		3,675
U.S. GAAP	4,020	8,091
Deferred income taxes – Canadian GAAP	8,772	4,346
Adjusted for:		
Research and development costs	(5,150)	(664)
U.S. GAAP	3,622	3,682
Share capital – Canadian GAAP	123,930	57,326
Adjusted for:		
Valuation of options and warrants	3,675	3,675
Reduction of capital	13,842	13,842
U.S. GAAP	\$ 141,447	\$ 74,843

Corporate Information

DIRECTORS

Fred J. Dymont 1,2,3
President and Chief Executive Officer,
Ranger Oil Limited
Calgary, AB

James E. McCormick 1,2
Independent Businessman,
Dallas, TX

William S. Rice 1,3
Chairman of the Board,
Partner, Bennett Jones Verchere
Calgary, AB

Norman W. Robertson 2,3
Independent Businessman,
Calgary, AB

Robert M. Tessari
President and Chief Executive Officer,
Tesco Corporation
Calgary, AB

1 Audit Committee

2 Compensation Committee

3 Corporate Governance Committee

OFFICERS

Robert M. Tessari
President and Chief Executive Officer,
Tesco Corporation

Delton Campbell
Vice President and Chief Operating Officer,
Tesco Corporation

Per G. Angman
Senior Vice President, Engineering
Tesco Corporation

Martin Hall
Senior Vice President, Finance
and Secretary
Tesco Corporation

Michael Brouse
Senior Vice President, International Sales
and Business Development
Tesco Corporation

Evert Beierbach
Senior Vice President
and General Manager
Tesco Drilling Technology

Gerry Marshall
Vice President, Special Projects
Tesco Corporation

Colin B. Murch
Vice President, Business Development,
Tesco Corporation

Dan Withoff
Vice President, Latin America
Tesco Corporation

BANKERS

Bank of Nova Scotia
Calgary, AB

Sterling Bank
Houston, TX

LEGAL COUNSEL

Bennett Jones Verchere
Calgary, AB

Porter & Hedges
Houston, TX

AUDITORS

Price Waterhouse
Calgary, AB

TRANSFER AGENTS

Montreal Trust
Calgary, AB

SALES/SERVICE LOCATIONS

Alaska	Netherlands
Algeria	Nigeria
Argentina	Oman
Australia	Pakistan
Austria	Peru
Bolivia	Philippines
Brazil	Poland
Canada	Russia
China	Saudi Arabia
Columbia	Singapore
Ecuador	South Africa
India	Spain
Indonesia	Tunisia
Iran	Turkey
Israel	U.A.E.
Italy	United Kingdom
Japan	United States
Mexico	Venezuela

CORPORATE OFFICE

Tesco Corporation
6204 - 6A Street S.E.
Calgary, AB T2H 2B7
Tel: (403) 233-0757
Fax: (403) 252-3362

DIVISIONAL OFFICES

Tesco Drilling Technology
4930 - 74 Avenue S.E.
Calgary, AB T2C 3C9
Tel: (403) 720-2858
Fax: (403) 720-2868

Tesco Drilling Technology Inc.
11330 Brittmoore Park Drive
Houston, TX 77041
Tel: (713) 849-5900
Fax: (713) 849-0075

Reservoir Drilling Services
6204 Burbank Road S.E.
Calgary, AB T2H 2C2
Tel: (403) 252-1508
Fax: (403) 255-8596

Gris Gun Ltd.
5409 - 39139 Hwy. 2A
Red Deer County, AB T4S 2B3
Tel: (403) 340-1017
Fax: (403) 340-1018

Kelon Electric Inc.
Ener-Rig Supply Inc.
Industrial Rewind & Supply Inc.
Bay 2, 2104 - 7 Street
Nisku, AB T9E 7Y2
Tel: (403) 955-2067
Fax: (403) 955-2545

Mainline Industries Inc.
6407 Burbank Road S.E.
Calgary, AB T2H 2E1
Tel: (403) 253-3025
Fax: (403) 253-3038

Underbalanced Drilling Services
8301 East Prentice Avenue, Suite 207
Englewood, CO 80111
Tel: (303) 771-9932
Fax: (303) 771-4135



TESCO CORPORATION

6204 - 6A STREET SE, CALGARY, ALBERTA, CANADA T2H 2B7

TEL (403) 233-0757 FAX (403) 252-3362

<http://www.tescocorp.com>

PRINTED IN CANADA